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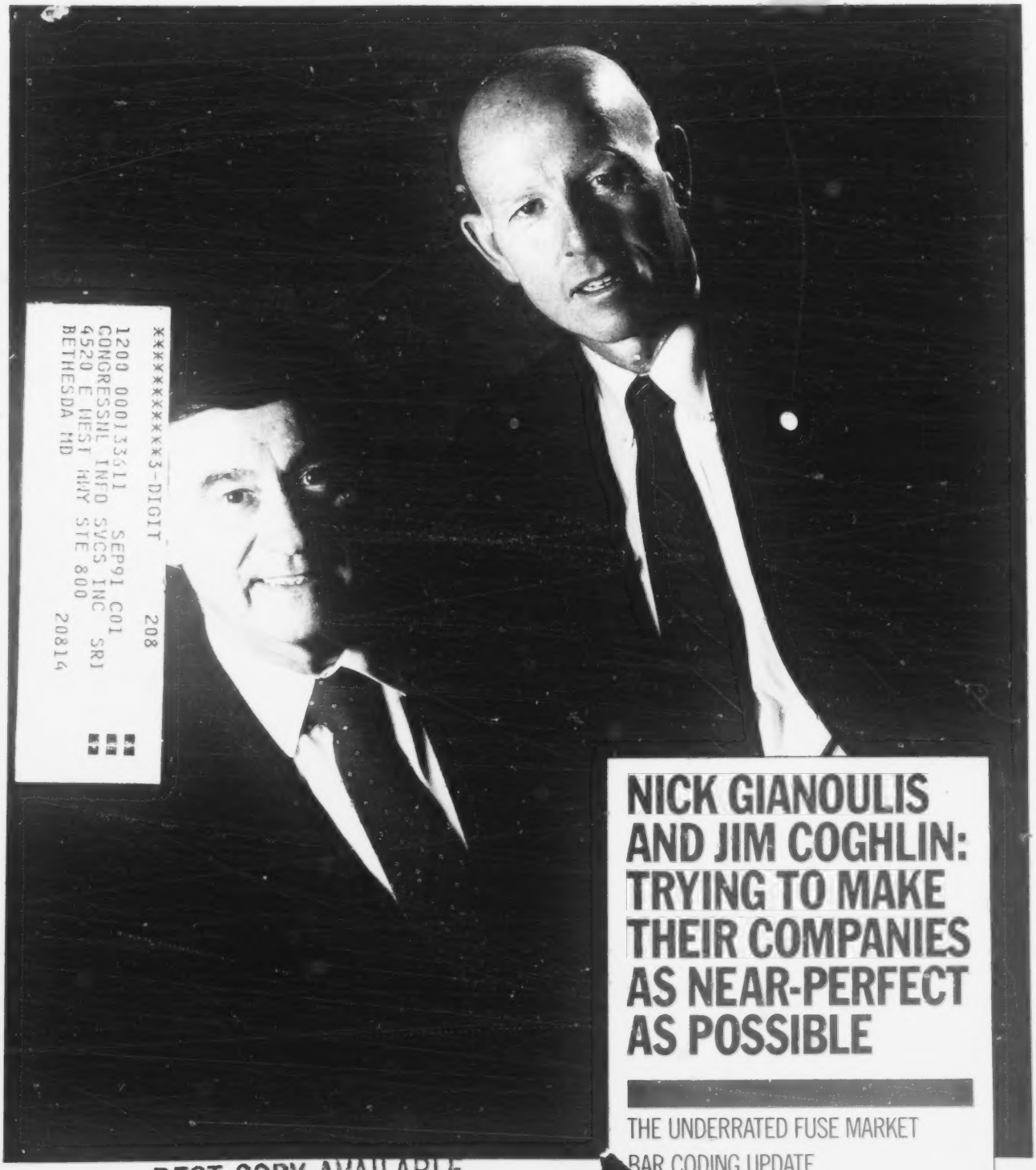

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NICK GIANOULIS AND JIM COGHLIN: TRYING TO MAKE THEIR COMPANIES AS NEAR-PERFECT AS POSSIBLE

THE UNDERRATED FUSE MARKET

BAR CODING UPDATE

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VOLUME 71
NUMBER 2

ELECTRICAL WHOLESALING

FEBRUARY
1990

FEATURES

COVER PACKAGE

Cover photo of Nick Gianoulis and Jim Coghlin by David Pollack

39 THE QUEST FOR QUALITY

41 HIGH IDEALS

Jim Coghlin is reaching for the unthinkable in a service business—perfect service—and shaking up his company for good.

47 FOREVER ERROR-FREE?

United Electric Supply's quest for quality is driven by employee participation.

MARKET UPDATE

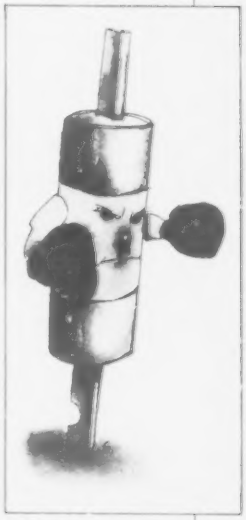
55 SMALL BUT MIGHTY

Fuses are not a huge market for distributors. But when it comes to the bottom line, they can really pack a punch.

INDUSTRY TREND

61 BAR CODING UPDATE

Here are some of the common questions distributors have about bar coding systems for inventory control applications.



■ PAGE 55

IN BUSINESS

SUPPLIERS' CORNER

■ ARROW HART

65 ELECTRONIC CATALOGS

Paul Hagist wanted distributors to have instant access to the information needed to sell wiring devices. He turned to electronic catalogs.

SALES

■ COUNTER SALES

68 COUNTER FUN

Successful counter days should offer more than soda and hot dogs.

■ SALES ENVIRONMENT

70 SELLING GETS TECHNICAL

As complex new products are launched in the 1990s, salespeople must accent technical expertise and sales support.

■ TECHNICAL TRAINING

77 NE CODE CHANGES

Here's the fifth and final installment on changes in the 1990 National Electrical Code that offer sales opportunities for distributors.

MANAGEMENT

■ SALES MANAGEMENT

82 STRATEGIC PAY

Distributors can direct the outside sales force to meet company goals by using an appropriate compensation plan.

■ PLUS:

84 ECONOMIC UPDATE: SOFTENING IN THE EAST

■ PAGE 68

DEPARTMENTS

8 TIMES AND TRENDS
10 PERSONAL VIEW
12 NEWS WATCH
28 PRODUCTS
32 BULLETIN BOARD
73 READER SERVICE
90 PEOPLE
93 ADVERTISERS' INDEX
94 SPEAKING OUT

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ELECTRICAL WHOLESALING is now 90 days into its marriage with Intertec Publishing Corp., its new owner. As with any newlyweds in the business world, during the first few months each partner must get used to living day-to-day with the other. Those of you who have been through a merger or acquisition know what I'm talking about.

The glue that will hold this relationship together, and the primary reason Intertec bought ELECTRICAL WHOLESALING, *Electrical Marketing* newsletter, *EC&M* magazine and, several years earlier, *CEE News*, is the editorial quality of these publications. Intertec wanted us because our top-shelf editorial coverage makes the publications a profitable addition to the company's growing stable of business magazines.

I'm happy to report our fine editorial staff is totally intact, which means we'll continue to deliver the same quality editorial product you've come to expect from us through the years. These editors, dedicated to the electrical industry and to magazine publishing, aren't going to scatter. It's a publisher's delight to have an experienced editorial staff.

These are exciting days for our publications, and we already have some new products to roll out. These include *Code Watch*, a newsletter on the National Electrical Code, and a training video on changes in the 1990 NE Code. We will keep you posted on other developments this year.

John G. Behmke

JOHN G. BEHMKE, Publisher

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however, it may not be worth their while to think about, unless they can quickly and easily figure out exactly what it is.

Second, pay the bonuses separately from ordinary pay. That way, salespeople can see that if management asks them to sell something and they do, it delivers. There is another reason, too. Sometimes married employees are motivated most when they know they have an opportunity to earn a few extra dollars that can be used for "something special" or something personal rather than be put into the family kitty to pay the bills. It makes good business sense to give sales personnel this chance.

Another way a distributor can make a relatively small bonus stand out is to pay it by a separate check, for the full amount, without taxes taken out. Even though taxes are unavoidable, there is nothing more irritating to a salesperson than having worked out that he made a $100 bonus on a promotion only to get a check for $89.07. Of course, taxes must be withheld, but it is perfectly acceptable to withhold them from the next standard paycheck.

Whether one is talking about the basic incentive portion of outside salespeople's pay or a small bonus, the point is the same: The amount must seem significant, either because it is a large portion of the paycheck or because it is a visible amount above and beyond "ordinary" pay.

Incentive rewards should not be determined by a linear or straight-line method. Many compensation plans used within the electrical wholesaling industry can be called "linear" or "straight-line." Under such plans, salespeople are paid the same percentage whatever the level of performance—sales or gross profit—they achieve. For example, a firm pays its outside salespeople 10% of gross profit (in dollars) on the sales they make, whether the gross profit percentage on the business was 20% or 25%.

It is possible, though, to use a graded progression approach. Unlike linear arrangements, these plans give extra rewards for higher levels of performance. Thus, if a company wants to achieve a 25% gross profit in a territory, it might decide to pay salespeople 5% commission for 22% gross profit, 6% for 23%, 8% for 24% and 11% for 25%. It is easy to see why this system would motivate a salesperson in a way that paying a fixed percentage on gross profit would not.

Although a sound compensation/incentive plan can last for years, its numerical goals must be adjusted annually. When a distributorship has a marketing strategy, it has not only a clear sense of the position it wishes to occupy a few years down the road, but also some well-defined plans to get there. Such long-range goals cannot be achieved overnight; they must be gone after step by step. The numerical goals assigned to salespeople for compensation purposes, therefore, need to be adjusted over time. One way to increase a company's market share in a territory from 15% to 40%, for example, might be to capture different groups of customers over each of three years. Asking the sales staff to do it all at once might fail, but providing incentives that induce salespeople to target one customer group the first year, a second the next and a third in the final year might have a chance of success.

A second reason to change specific goals annually is to prevent salespeople from becoming self-satisfied or from thinking that having built a base of business they can take it easy and reap the rewards. A company cannot grow if its salespeople can assume their monthly income the way a trust fund beneficiary can expect the monthly check.

Finally, managers should be able to change their goals regularly because flexibility is important in business management. Having a rigid strategic marketing plan is like having no plan at all; if business circumstances change, the distributor will respond to the changes and forget the plan. If a plan is to be valuable over time, it must be sufficiently unstructured so that, within its contours, management can respond to changing conditions. Even though a well-thought-out sales compensation plan should survive many changes, the numbers specifying the areas, target accounts and margins salespeople are asked to go after must be able to shift easily with the tides.

The electrical wholesaler has no more important weapon for achieving long-range market objectives than his incentive compensation plan. While tying compensation to strategy must be done in a carefully thought-out process, it need not be a lengthy or expensive one. The approach depends on the premise that good salespeople are, by nature, performance-driven. If a company's management is thorough in formulating its marketing goals and careful about constructing compensation incentives that will induce salespeople to achieve them, a distributor can move beyond "hit or miss" marketing strategies. □

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ECONOMIC UPDATE

SOFTENING IN THE EAST

ELECTRICAL DISTRIBUTORS IN THE EAST EXPECT A FALLOFF IN GROWTH IN 1990.

■ For much of the 1980s, business was booming along for electrical distributors in the New England and Middle Atlantic states. For example, in 1987 distributors reported sales in New England to have been up 10.4% and in the Middle Atlantic states to have been up 11.1% over the previous year, while electrical distributors' sales nationwide were up only 6.1%. Likewise, distributors reported 1988 sales to be up 12.8% in New England and 11.2% in the Middle Atlantic states, a bit ahead of the results for distributors nationwide in 1988.

1990 SALES FORECASTS

■ The East looks a bit shaky

STATE	DISTRIBUTORS' FORECAST % CHANGE	EW SALES FORECAST ($ millions)
CONNECTICUT	10.3%	$902.8
MAINE	S	215.9
MASSACHUSETTS	5.5%	1,224.2
NEW HAMPSHIRE	S	114.0
NEW JERSEY	6.2%	2,053.8
NEW YORK	9.1%	3,937.0
PENNSYLVANIA	10.2%	2,107.9
RHODE ISLAND	S	119.9
VERMONT	S	102.7

S = insufficient returns

The tide began to turn in 1989, however. Distributors in New England anticipate that sales will have risen 7.2%, and in the Middle Atlantic states they forecast 8.8% growth in 1989, both below the nationwide performance (preliminary) of 11.0% growth. Those predictions should be viewed as somewhat optimistic; they were made by distributors in the region in mid-1989, before the regional economic difficulties in New England, especially in the Boston area, became widely apparent. The softening business conditions, which some are calling a regional recession, would probably have led electrical distributors to lower their projections for 1989 and 1990 had the survey to collect the data been done later in the year.

With that fact in mind, the forecasts for 1990 also should be taken with a grain of salt. Distributors in New England were saying 1990 would be up 7.1%, while those in the Middle Atlantic states were anticipating +8.9%. The largest 1990 growth rates in these two areas of the country were forecast by distributors in Connecticut (+10.3%) and Pennsylvania (+10.2%).

Nationwide, electrical wholesalers forecast 6.7% growth in 1990. If this prediction were to come true, it would mean a dropoff in the rate of sales growth after a very strong 1989. Nonetheless, it would represent the eighth straight year of sales increases for electrical wholesalers. Softening business conditions in areas like New England, however, may mean 1990 will show less growth than distributors there anticipated at mid-year 1989, when the survey gathering these forecasts was taken.

The East Coast states are a contrast in very large and very small. Among the nine states in this area are four of the smallest states in the country in terms of electrical distributor sales (Vermont, New Hampshire, Rhode Island and Maine) and four of the largest (New York, New Jersey, Pennsylvania and Massachusetts). □

ELECTRICAL WHOLESALING

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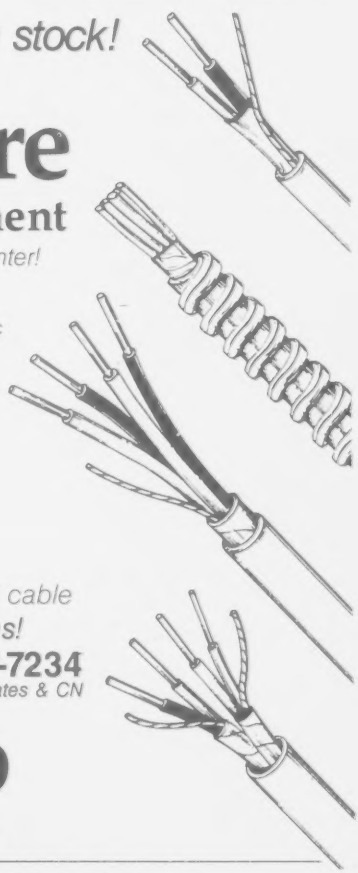

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